

UNITED STATES OF AMERICA  
POSTAL REGULATORY COMMISSION  
WASHINGTON, DC 20268-0001

Before Commissioners:

Ruth Y. Goldway, Chairman;  
Robert G. Taub, Vice Chairman;  
Mark Acton;  
Tony Hammond; and  
Nanci E. Langley

Competitive Product Prices  
International Business Reply Service Competitive  
Contract 3 (MC2011-21)  
Negotiated Service Agreements

Docket No. CP2013-57

ORDER APPROVING NEW INTERNATIONAL BUSINESS REPLY SERVICE  
COMPETITIVE CONTRACT 3 AGREEMENT

(Issued April 11, 2013)

I. INTRODUCTION

The Postal Service seeks to include a new International Business Reply Service (IBRS) contract (Agreement) within the IBRS Competitive Contract 3 product.<sup>1</sup> For the reasons discussed below, the Commission approves the addition of the Agreement to the IBRS Competitive Contract 3 product.

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<sup>1</sup> Notice of United States Postal Service Filing of a Functionally Equivalent International Business Reply Service Competitive Contract 3 Negotiated Service Agreement, April 2, 2013 (Notice). The Notice was filed pursuant to 39 C.F.R. § 3015.5.

## II. BACKGROUND

IBRS competitive contracts provide businesses that sell lightweight articles to foreign consumers with an opportunity to offer consumers a way to return those articles to the United States for recycling, refurbishing, repairing, or other value-added processing. *Id.* at 5. The Commission approved the addition of the IBRS Competitive Contract 3 product to the Mail Classification Schedule (MCS) in February 2011 and designated the agreement filed in Docket Nos. MC2011-21 and CP2011-59 as the baseline agreement for purposes of establishing functional equivalence.<sup>2</sup>

## III. POSTAL SERVICE'S NOTICE

The Postal Service states that the Agreement is the successor to the agreement included in the IBRS Competitive Contract 3 product in Docket No. CP2012-18. Notice at 3. The Postal Service intends for the Agreement to take effect on April 22, 2013. *Id.*

*Functional equivalence.* The Postal Service asserts that the Agreement is functionally equivalent to the baseline agreement because it shares similar cost and market characteristics with the baseline agreement. *Id.* at 4. The Postal Service states that the Agreement complies with Governors' Decision No. 08-24, which established a pricing formula and classification to ensure that each IBRS agreement complies with 39 U.S.C. § 3633 and related regulations, and asserts that the costs of each IBRS contract therefore conform to a common description. *Id.* The Postal Service also states that the IBRS language proposed for the MCS requires that each IBRS agreement must cover its attributable costs. *Id.* The Postal Service asserts that the Agreement meets the criteria in Governors' Decision No. 08-24, and thus exhibits cost and market characteristics similar to previous IBRS agreements. *Id.*

The Postal Service asserts that the functional terms of the contract and benefits of the Agreement are the same as those of the baseline agreement. *Id.* It states that

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<sup>2</sup> See Order No. 684, Docket Nos. MC2011-21 and CP2011-59, Order Approving International Business Reply Service Competitive Contract 3 Negotiated Service Agreement, February 28, 2011.

prices offered under the Agreement may differ from other IBRS 3 contracts due to differences in volumes, postage commitments, and pricing at the time of the Agreement's execution, but asserts that these differences do not alter the functional equivalency of the Agreement with the baseline agreement. *Id.* at 5. In addition, the Postal Service identifies what it characterizes as minor differences between the Agreement and the baseline agreement. *Id.* at 5-6. These include a revision to Article 15 adding a phrase addressing the possibility that Agreement-related information may be filed in other Commission dockets and the inclusion of a new Article 30 concerning intellectual property, co-branding, and licensing. *Id.* The Postal Service asserts that these differences do not affect the fundamental service being offered or the fundamental structure of the Agreement. *Id.* at 6. It therefore claims that nothing detracts from the conclusion that the Agreement is functionally equivalent to the baseline agreement. *Id.*

#### IV. COMMENTS

The Public Representative filed comments supporting the addition of the Agreement to the IBRS Competitive Contract 3 grouping.<sup>3</sup> No other comments were received.

The Public Representative states that her review of the Agreement and the supporting financial model filed under seal leads her to conclude that the Agreement is functionally equivalent to the baseline agreement and should generate sufficient revenues to cover costs and satisfy the requirements of 39 U.S.C. § 3633. *Id.* at 2-3. The Public Representative agrees with the Postal Service that the two differences between the Agreement and the baseline agreement (revised Article 15 and a new Article 30) are minor and do not affect the fundamental service being offered or the fundamental structure of the Agreement. *Id.* at 3. The Public Representative notes one

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<sup>3</sup> Public Representative Comments on Postal Service Notice of Filing a Functionally Equivalent International Business Reply Service Competitive Contract 3 Negotiated Service Agreement, April 9, 2013 (PR Comments).

additional difference between the Agreement and baseline agreement. *Id.* In Articles 6.1 and 6.3, the baseline agreement refers to Domestic Mail Manual (DMM) 507.9 while the Agreement refers to DMM 505.1. *Id.* She suggests that the Commission request clarification concerning the change. *Id.* She nonetheless concludes that the Agreement is functionally equivalent to the baseline agreement. *Id.* The Public Representative further concludes that the prices in the Agreement should generate sufficient revenues to cover costs and thereby satisfy the requirements of section 3633(a). *Id.* at 4.

## V. COMMISSION ANALYSIS

*Scope and nature of review.* The Commission's responsibilities in this case are to determine whether the Agreement: (1) is functionally equivalent to the IBRS 3 baseline contract; and (2) satisfies the requirements of 39 U.S.C. § 3633 and applicable Commission rules (39 C.F.R. §§ 3015.5 and 3015.7).

*Functional equivalence.* The Commission concludes that the Agreement shares similar cost and market characteristics with the baseline agreement. The Commission has considered the nature and impact of the two differences between the Agreement and the baseline agreement (revised Article 15 and new Article 30). It determines that these differences are minor and do not affect the fundamental service being offered or the fundamental structure of the contract.

In addition, the Commission has considered the difference noted by the Public Representative to Articles 6.1 and 6.3, where references to DMM 507.9 have been replaced with references to DMM 505.1. The Commission requires the Postal Service to inform the Commission of all significant differences between any proposed functionally equivalent IBRS contract and the baseline agreement. Order No. 684 at 6. The Commission notes that this change to Articles 6.1 and 6.3 was not documented by the Postal Service in several other previous IBRS 3 dockets where the agreement

contained an identical change.<sup>4</sup> Changes to DMM references can impact functional equivalency. Accordingly, such changes should be identified in the Postal Service's notices proposing functionally equivalent agreements. Here, the Commission finds that the DMM reference changes to Articles 6.1 and 6.3 do not alter the functional equivalence of the Agreement. In addition, the DMM reference changes are logical in the context of the Agreement, focusing the mailer on relevant content concerning Business Reply Mail, rather than Address Sequencing Services. The Commission therefore concludes that these differences do not affect the Agreement's functional equivalence to the baseline agreement. The Agreement is included within the IBRS Competitive Contract 3 product.

*Section 3633 considerations.* The Commission reviews competitive product rates to ensure that they meet the requirements of 39 U.S.C. § 3633 and 39 C.F.R. §§ 3015.5 and 3015.7. The Commission has reviewed the financial analyses provided under seal and the Public Representative's Comments addressing the consistency of the Agreement with applicable requirements. Based on the information provided, the Commission finds that the Agreement should not lead to the subsidization of competitive products by market dominant products, satisfying 39 U.S.C. § 3633(a)(1); should cover its attributable costs, satisfying 39 U.S.C. § 3633(a)(2); and should have a positive effect on competitive products' contribution to institutional costs, satisfying 39 U.S.C. § 3633(a)(3).

*Other considerations.* The Postal Service has represented to the Commission that the Agreement will become effective April 22, 2013. Notice at 3. The contract terminates 1 calendar year after the effective date, unless terminated sooner. *Id.* at 4.

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<sup>4</sup> See, e.g., Order No. 1260, Docket No. CP2012-16, Order Adding Contract to International Business Reply Service Competitive Contract 3 Product, February 27, 2012; Order No. 1280, Docket No. CP2012-17, Order Adding Contract to International Business Reply Service Competitive Contract 3 Product, March 9, 2012; Order No. 1298, Docket No. CP2012-18, Order Adding Contract to International Business Reply Service Competitive Contract 3 Product, March 27, 2012; Order No. 1668, Docket No. CP2013-50, Order Approving New International Business Reply Service Competitive Contract 3 Agreement, February 25, 2013.

The Postal Service shall promptly notify the Commission if the Agreement terminates earlier than scheduled.

The Agreement, like previous IBRS competitive contracts, includes a contingency clause in Article 8, which allows the Postal Service to change rates based on cost increases without entering into a new agreement. *Id.* Attachment 1 at 3. Article 27 addresses contingency prices under early termination and other circumstances. *Id.* Attachment 1 at 7-8. The Commission reviewed these types of clauses in Docket Nos. MC2009-14 and CP2009-20 and concluded that if rates change under the terms of these contingencies, the Postal Service must file the changed rates under 39 C.F.R. § 3015.5 and provide at least 15 days' notice, but stated that it did not anticipate the need for further action unless the changed rates raise new issues.<sup>5</sup> The Commission further determined that its conclusions with respect to the agreement in Docket Nos. MC2009—14 and CP2009-20 would apply to other agreements with similar provisions permitting contingency prices. *Id.* at 11. As the Agreement includes similar contingencies, the Postal Service shall file rate changes occurring as the result of a contractual contingency with the Commission and provide at least 15 days' advance notice of the change in rates.

*Conclusion.* The Commission concludes that the Agreement is appropriately added to the existing IBRS Competitive Contract 3 product.

## VI. ORDERING PARAGRAPHS

*It is ordered:*

1. The Agreement filed in Docket No. CP2013-57 is included within the International Business Reply Service Competitive Contract 3 product.

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<sup>5</sup> See Order No. 178, Docket Nos. MC2009-14 and CP2009-20, Order Concerning International Business Reply Service Contract 1 Negotiated Service Agreement at 9-11, February 5, 2009.

2. The Postal Service shall notify the Commission if the Agreement terminates earlier than scheduled.
3. The Postal Service shall file any modifications of prices in the Agreement with the Commission as described in this Order.

By the Commission.

Shoshana M. Grove  
Secretary